



A REPORT  
TO THE  
**ARIZONA LEGISLATURE**

Accounting Services Division

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Compliance Review

# **Crane Elementary School District No. 13**

Year Ended June 30, 2004

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**Debra K. Davenport**  
Auditor General

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**DEBRA K. DAVENPORT, CPA**  
AUDITOR GENERAL

**STATE OF ARIZONA**  
**OFFICE OF THE**  
**AUDITOR GENERAL**

**WILLIAM THOMSON**  
DEPUTY AUDITOR GENERAL

January 13, 2006

Governing Board  
Crane Elementary School District No. 13  
4250 West 16th Street  
Yuma, AZ 85364

Members of the Board:

We have reviewed the District's single audit reports and Uniform System of Financial Records (USFR) Compliance Questionnaire for the year ended June 30, 2004, to determine whether the District substantially complied with the USFR.

As a result of our review, we noted significant deficiencies in internal controls that indicate the District had not complied with the USFR. District management should implement the recommendations we have described in this report within 90 days after the date of this letter. We have communicated specific details for all deficiencies to management for correction.

During the 90-day period, the District may request a meeting to discuss these recommendations with my Office and the Arizona Department of Education by calling Magdalene Haggerty, Accounting Services Director, or Michael Stelpstra, Accounting Services Manager.

A member of my staff will call the Director of Management Services in several weeks to discuss the District's action to implement these recommendations. After the 90-day period, my staff will schedule an on-site review of the District's internal controls to determine whether the District is in substantial compliance with the USFR. Our review will cover the deficiencies we have communicated to management as well as any other internal control deficiencies we are aware of at the time of our review.

Sincerely,

Debra K. Davenport  
Auditor General

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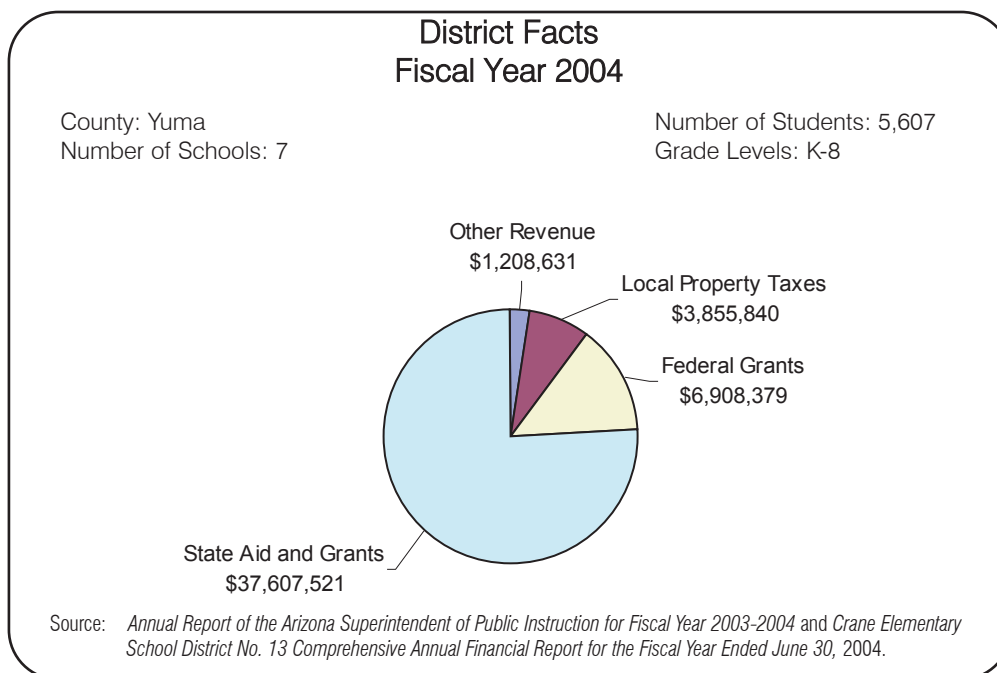


# INTRODUCTION

Crane Elementary School District No. 13 is accountable to its students, their parents, and the local community for the quality of education provided. The District is also financially accountable to taxpayers for over \$49.5 million it received in fiscal year 2004 to provide this education.

The District should use effective internal controls to demonstrate responsible stewardship for the tax dollars it receives. These controls are set forth in the Uniform System of Financial Records (USFR), a joint publication of the Office of the Auditor General and the Arizona Department of Education (ADE). The policies and procedures in the USFR incorporate finance-related state and federal laws and regulations and generally accepted accounting principles applicable to school districts. Districts are legally obligated to comply with USFR requirements, and doing so is good business practice.

As a result of our review of the District's single audit reports and USFR Compliance Questionnaire for the year ended June 30, 2004, we determined that the District had failed to comply with the USFR. We noted certain deficiencies in controls that the District's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate financial stewardship and to comply with the USFR. Our recommendations are described on the following pages.



# The District must follow competitive purchasing requirements

School District Procurement Rules for competitive sealed bidding and USFR guidelines for purchases below the competitive sealed bidding threshold promote open and fair competition among vendors. This helps ensure that districts receive the best possible value for the public monies they spend. However, the District did not always follow the School District procurement rules or USFR guidelines. Specifically, the District did not always issue invitations for bids or requests for proposals for purchases that required them. Additionally, when invitations for bids or requests for proposals were issued, the District did not always retain the invitation, include evaluation factors in its requests, or document its reasons for soliciting proposals rather than inviting bids or its justification for vendor selection. Further, the District did not determine in writing that only one vendor existed for sole source procurements. Finally, the District did not always obtain oral or written price quotations for purchases that required them, and did not always document the reasons that the vendor with the lowest quotation was not selected.

The District did not always follow competitive purchasing requirements or USFR guidelines, and therefore, may not have received the best value for the public monies it spent.

## Recommendations

To strengthen controls over competitive purchasing and ensure it complies with the School District Procurement Rules and USFR guidelines, the District should:

- Issue invitations for bids or requests for proposals for purchases of construction, materials, or services exceeding \$33,689.
- Include all information required by the School District Procurement Rules in its invitations for bids and requests for proposals and retain all documentation.
- Before issuing requests for proposals, obtain written determinations from the Governing Board that issuing invitations for bids is either not practicable or not advantageous to the District.
- Document the reasons for not selecting the vendor who submitted the lowest proposal or quotation.
- Only award a contract for a material, service, or construction item without competition when the Governing Board determines in writing that there is only one vendor that supplies the items or services. Retain this documentation in the purchasing file. Sole source procurements should be avoided except when no reasonable alternative vendor exists.

School District Procurement Rules provide the requirements for:

- Competitive sealed bids for goods and services in excess of \$33,689.
- Competitive sealed proposals for goods and services when factors other than the lowest cost are appropriate.
- Sole source and emergency procurements and other exceptions.

- Obtain oral price quotations from at least three vendors for purchases estimated to cost between \$5,000 and \$15,000, and written price quotations from at least three vendors for purchases that are estimated to cost between \$15,000 and \$33,689. If the District cannot obtain three price quotations, it should document the vendors contacted and their reasons for not providing quotations.

Guidelines for oral and written price quotations can be found on USFR pages VI-G-8 and 9 and in USFR Memorandum No. 213.

## The District should ensure the accuracy of its accounting records and supporting documents

The District's Governing Board depends on accurate information to fulfill its oversight responsibility. The District should also report accurate information to the public and agencies from which it receives funding. To achieve this objective, management should ensure that its accounting records and budget are accurate and complete, and documents supporting such records are retained. However, the District did not accomplish this objective because it understated federal revenues and Maintenance and Operation (M&O) Fund expenditures in its accounting records by improperly reversing expenditures in the M&O Fund for E-rate reimbursements and transferring monies from the M&O Fund to the Unemployment Insurance Fund. In addition, the District did not properly carry its three Classroom Site Funds budget balances forward from 2003 to its fiscal year 2004 adopted budget. Further, the District did not always retain documentation to support travel reimbursement claims and the actual costs of items on the supplies inventory list.

The District did not properly carry forward the previous year's Classroom Site Fund balances.

## Recommendations

The following procedures can help the District record and report accurate accounting information:

- Record revenues and expenditures for reimbursement grants in the appropriate funds.
- Only reverse expenditures when refunds are received for overpayments or goods returned to a vendor.
- Transfer monies between funds only when specifically authorized by statute.
- Carry forward the unexpended budget balances in each of the three Classroom Site Funds separately to the following year's budget in accordance with Arizona Revised Statutes §15-978.
- Retain documentation to support expenditures and actual costs of supply items.

USFR §III-F lists the transfers authorized by statute.



## The District's controls over cash should be strengthened

The District is accountable to the State and local taxpayers for the safeguarding and use of the assets entrusted to it, including significant amounts of cash. However, the

Poor cash controls left district monies susceptible to loss, theft, or misuse.

District did not adequately safeguard cash received at the District as it did not adequately separate responsibilities of cash-handling and recordkeeping among employees. Specifically, an employee who was responsible for receiving cash was also able to record accounts-receivable transactions and prepare bank reconciliations.

### Recommendations

To help strengthen controls over cash, the District should ensure that cash-handling and recordkeeping responsibilities are separated among employees, and that an employee not responsible for handling cash or issuing checks reconciles the bank accounts. If the same employee must perform multiple responsibilities, a supervisor should review and approve the bank reconciliations.

Policies and procedures that provide adequate internal controls over cash are outlined on USFR pages VI-C-1 and 2.

## The District should maintain an accurate capital assets list

The District has invested a significant amount of money in its capital assets, which consist of land, buildings, and equipment. In order to protect its investment and accurately report asset balances, effective stewardship requires the District to maintain accurate lists of these assets. However, the District did not accomplish this objective. Specifically the District did not include capital assets acquired through on-behalf payments by the Arizona School Facilities Board on its capital assets list. In addition, the District combined land improvements with buildings and improvements. Further, the District did not report depreciation expense for buildings and improvements in the functions that used the assets. Finally, items listed on the District's stewardship list were not always found at the location indicated on the list.

The District did not maintain a complete and accurate record of its capital assets.

## Recommendations

The following procedures can help the District improve control over its assets and ensure accurate and complete capital assets and stewardship lists:

- Include all capital assets acquired by the School Facilities Board for the District on the capital assets list.
- Maintain the capital assets list by asset category (i.e. land and improvements, buildings and improvements, and equipment).
- Ensure that depreciation expense is calculated for each depreciable asset and recorded in the accounting records in the function for which the asset is used.
- Prepare equipment transfer forms when items are moved to another location and update the capital assets and stewardship lists.

USFR pages VI-E-2 and 3 and USFR Memorandum No. 196 describe the information that should be recorded on the capital assets and stewardship lists.

## The District should maintain accurate attendance records

The State of Arizona provides funding to districts based on student attendance. In turn, the State requires school districts to accurately record and report student entry and withdrawal dates, attendance, and absences. However, dates recorded on the District's student entry and withdrawal forms did not always agree with the entry and withdrawal dates recorded in the District's computerized attendance system. Additionally, entry and withdrawal dates recorded in the system did not always agree to teacher registers, and some teacher registers were not retained.

## Recommendations

To help ensure that the District receives the correct amount of state and local funding, the District should perform the following:

- Record and report membership and absences in accordance with ADE's *Instructions for Required Reports*.
- Have a second employee verify that student entry and withdrawal dates recorded in the attendance system agree with the entry and withdrawal forms, and with teacher registers if prepared separately.
- Retain teacher registers to support membership and absences reported by the District.